

## Franchise Tax Board

## ANALYSIS OF ORIGINAL BILL

Author: Knight et al Analyst: Marion Mann DeJong Bill Number: SB 2145  
Related Bills: See Legislative History Telephone: 845-6979 Introduced Date: 02/25/2000  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Manufacturers' Investment Credit/Delete Repeal Date to Extend Indefinitely

SUMMARY

This bill would remove the repeal date from the Manufacturers' Investment Credit (MIC), extending the credit indefinitely.

This bill would also add a provision to the Revenue and Taxation Code that would exclude any revenue losses resulting from the changes to the MIC made by this bill from estimates used by the Department of Finance for purposes of the Vehicle License Fee (VLF). This provision is not discussed in this analysis since it does not impact the programs administered by the department.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would become effective immediately upon enactment and would apply to taxable or income years beginning on or after January 1, 2000.

LEGISLATIVE HISTORY

**SB 671 (Ch. 881, Stats 1993)** added the MIC to the Revenue and Taxation Code. **SB 676 (Ch. 751, Stats. 1994)** made clarifying changes to the MIC. **SB 975 (Ch. 91, Stats. 1995)** was a code maintenance bill; it made technical changes to the MIC. **SB 38 (Ch. 954, Stats. 1996)** expanded the MIC by: (1) adding semiconductor equipment manufacturing and certain aerospace manufacturing to the definition of "qualified taxpayer" for the special purpose building provision; and (2) adding taxpayers engaged in certain biopharmaceutical and biotech activities to the definition of "small business." **SB 1106 (Ch. 604, Stats. 1997)** was a clean-up bill for SB 38; it made technical changes to the MIC. **AB 2798 (Ch. 323, Stats 1998)** extended the MIC to manufacturers of custom or prepackaged computer software. **SB 1229 (Ch. 987, Stats. 1999)** made clarifying changes needed as a result of AB 2798.

**AB 2461 (2000)** would make four changes to the MIC, including a change to remove the repeal date and the manufacturing employment evaluation from the MIC, extending the credit indefinitely.

**AB 473 (1999/2000)** as introduced would have deleted the MIC repeal date. As amended, AB 473 would extend the MIC repeal date to January 1, 2004. AB 473 is in the Senate Appropriations Committee.

## Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

## Department Director

## Date

Alan Hunter for GHG

3/20/00

### SPECIFIC FINDINGS

**Existing state law** allows qualified taxpayers a credit, known as the MIC, equal to 6% of the amount paid or incurred after January 1, 1994, for qualified property that is placed in service in California.

The MIC will become inoperative on January 1, 2001, or on the January 1 of the earliest year after 2001 if the total employment in manufacturing in this state does not exceed by 100,000 jobs the total employment in manufacturing in this state on January 1, 1994. The Employment Development Department (EDD) is required to report to the Legislature annually on this determination.

**This bill** would remove the repeal date and the manufacturing employment evaluation from the MIC, extending the credit indefinitely.

#### Implementation Considerations

Implementation of this bill would occur during the department's normal annual system update.

#### Technical Considerations

This bill would delete subdivision (i) and renumber subdivisions (j) and (k). Subdivisions (j) and (k) provide operative dates for specific changes made to the MIC since its original enactment. Since these subdivisions contain the phrase "the amendments made by the act adding this subdivision shall be operative" and this bill would renumber those subdivisions, taxpayers may have difficulty determining when the previous changes became operative. Amendments 1 through 4 would resolve this issue by citing the specific laws that changed the MIC.

### FISCAL IMPACT

#### Departmental Costs

This bill would not significantly impact the department's costs.

#### Tax Revenue Estimate

This bill would not affect Personal Income Tax (PIT) or Bank and Corporation Tax (B&CT) revenues. The current law MIC will sunset only if employment in manufacturing, not including aerospace, on January 1, 2001, "does not exceed by 100,000 jobs the total manufacturing sector employment in this state on January 1, 1994." Employment in manufacturing increased by 136,000 between 1994 and 1997. It seems safe to conclude that the targeted increase will be met and that the current law MIC will remain operative indefinitely beyond 2001. Thus, unless a major change in the economy occurs, extending the sunset date indefinitely would not affect PIT or B&CT revenues under the current law conditions.

### BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S  
PROPOSED AMENDMENTS TO SB 2145  
As Introduced February 25, 2000

AMENDMENT 1

On page 15, modify lines 29 and 30 as follows:

The amendments made by ~~the act adding this subdivision~~ Chapter 954 of the Statutes of 1996 shall be operative for taxable years beginning

AMENDMENT 2

On page 15, modify lines 34 and 35 as follows:

(j) The amendments made by ~~the act adding this subdivision~~ Chapter 323 of the Statutes of 1998 shall be operative for taxable years beginning

AMENDMENT 3

On page 28, modify lines 31 and 32 as follows:

The amendments made by ~~the act adding this subdivision~~ Chapter 954 of the Statutes of 1996 shall be operative for income years beginning

AMENDMENT 4

On page 28, modify lines 36 and 37 as follows:

(j) The amendments made by ~~the act adding this subdivision~~ Chapter 323 of the Statutes of 1998 shall be operative for income years beginning